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Corp report

Hawker Siddeley Canada LTD. /1971 Annual Report

Contents

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on Friday, May 26th, 1972 at 11:00 a.m., E.D.T. A notice of the meeting, an information circular, and a proxy form for the convenience of those shareholders holding common shares, are enclosed with this report.

Hawker Siddeley Canada Ltd.

Head Office
7 King Street East,
Toronto 1, Ontario

Directors
Sir Arnold Hall, London, England
A.S. Kennedy, London, England
A.S. Pattillo, Q.C., Toronto, Ontario
R.S. Faulkner, Toronto, Ontario
A.A. Bailie, Toronto, Ontario
A.J. Laurence, London, England
A.W. McKenzie, Montreal, Quebec
K.L. Phillips, London, England
J.H. Ready, Islington, Ontario
R.G. Smith, Halifax, Nova Scotia
Colin W. Webster, Montreal, Quebec

Executive Management
Sir Arnold Hall, Chairman
A.S. Kennedy, Vice-Chairman
A.S. Pattillo, Q.C., Vice-Chairman
R.S. Faulkner, President and Chief Executive Officer
A.A. Bailie, Vice-President, Finance, and Treasurer
I.E. Bull, Vice-President and Comptroller
M.E. Davis, Vice-President (President and Chief Executive Officer, Orenda Limited)
A.W. McKenzie, (Chairman and President, Canadian General Transit Company, Limited)
J.G. Mitchell, Vice-President (Trenton Works Division)
L.A. Mitten, Vice-President (Canadian Car (Pacific) Division)
J.H. Ready, Vice-President and Secretary

Auditors
Price Waterhouse & Co., Toronto, Ontario

Registrar and Transfer Agent
National Trust Company, Limited, Toronto, Montreal, Winnipeg and Vancouver

Financial Data in Brief

(in thousands of dollars except per share data)	1971	1970
Consolidated net sales	158,238	182,484
Interest expense	3,985	4,114
Depreciation	7,469	6,848
Income from operations before taxes	4,377	6,512
Income taxes	1,931	3,748
Income of subsidiaries attributable to minority shareholders	601	959
Reduction of (provision for) loss on Rolls-Royce contracts	97	(154)
Income before extraordinary items	1,942	1,651
Extraordinary items –		
Income tax provision not required	312	684
Exchange loss	—	(500)
Net income for the year	2,254	1,835
Earnings per share:		
Per preferred share –		
before extraordinary items	13.87	11.80
after extraordinary items	16.10	13.11
Per common share – *		
before extraordinary items	.14	.10
after extraordinary items	.18	.13
Preferred dividends paid	2,013	1,006
Per preferred share	14.37½	7.18¾
Items credited (net) to retained earnings	1,895	1,100
Working capital	32,536	30,944
Capital expenditures	7,901	14,360
Shareholders' equity	80,843	78,707

**after preferred dividend requirements*

To the Shareholders

Your directors submit herewith the audited accounts of Hawker Siddeley Canada Ltd. and its consolidated subsidiaries for the year ended December 31, 1971. The comparative figures for 1970 have been restated (insofar as the charge for income taxes is concerned) as explained in notes to the financial statements but these restatements have not changed the reported income of 1970.

Income

On consolidated net sales of $158 million (1970: $182 million) income from operations before income taxes was $4,376,759 in 1971 compared with $6,512,373 in 1970.

After providing for income taxes, the interests of minority shareholders and crediting a reduction of $96,876 in the Company's share of the provision made in 1970 for losses arising from the failure of Rolls-Royce Limited, income for the year before extraordinary items was $1,941,857 (1970: $1,651,751). After allowing $805,000 in respect of the annual dividend requirement on the issued and outstanding Preferred shares this is equivalent to 14 cents per share (1970: 10 cents) on the 8,117,341 issued and outstanding Common shares of the Company.

The income tax provision in determining income before extraordinary items has been stated before utilization of losses carried forward from prior years. The application of these losses has resulted in a tax reduction of $311,699 (1970: $683,787) which is treated as an extraordinary item of income.

Net income for the year 1971 of $2,253,556 (1970: $1,835,105) is equivalent to 18 cents per share (1970: 13 cents) on the 8,117,341 issued and outstanding Common shares of the Company.

Dividends and Retained Earnings

The 1970 opening balance of retained earnings has been restated by $303,170. This represents the settlement of a claim against the Company for $167,089 arising from activities undertaken through a subsidiary prior to 1963 together with $136,081 representing the Company's share of taxation assessments for 1966 to 1969 against a partly-owned subsidiary which intends to contest these assessments.

Obligations of Hawker Industries Limited (99% owned) under long term supply contracts have been discharged upon terms which have permitted restoration to consolidated retained earnings of $1,894,744 from the provision for special costs and losses established in prior years.

During 1971 the Company declared and paid ten quarters' Preferred share dividends of $1.43¾ each per share, thereby eliminating all arrears of dividends on these 5¾% Cumulative Redeemable Preferred shares.

Consolidated retained earnings now stand at $7,731,132 compared with the restated balance of $5,595,341 a year ago.

Comment

In 1971 total sales of the Company were lower than in the previous year, reflecting difficult economic conditions in a number of sectors coupled with the effect of the financial measures taken by the U.S. Government and industrial problems in some of the plants. In particular two major strikes, one of 16 weeks duration at Canadian Bridge, and one of 13 weeks at Trenton, disrupted progress. Nevertheless, consolidated net earnings showed an improvement on the previous year.

The strikes were inevitably hurtful to the Company, but they arose as a result of demands for wage changes which were far beyond the economic capability of the Divisions concerned. Agreement to these demands would have been totally damaging not only to the forward prospects of the Divisions in financial terms, (and therefore in their ability to invest in new machinery and products), but to the prospects of providing continued employment in these areas.

Programs of rationalization, reconstruction and modernization have proceeded in several of the plants. At Trenton a modernization program affecting the axle plant and the rail car plant is approaching completion. At Canadian Bridge, structural steel operations which have a history of low profitability have been discontinued and the size of the plant substantially reduced to enable it to concentrate on electric power and micro-wave transmission structures for which it has competitive capability. At Orenda (60% owned) a program of reduction of capacity is proceeding, reflecting reaction to the severe fall in demand for aircraft engines and their components. These programs are costly but are the response to changes in demand and the need to eliminate low earning areas.

Detailed reports on the industrial operations are contained in the next section of this document. In summary, the position at the Divisions is as follows:

Divisions

Canadian Car Division, Thunder Bay, Ont. had strong demand in its highway trailer area but sales

volume of woodland equipment was poor. The Division has an order for rail cars for the Port Authority Trans-Hudson which will load its rail car facilities for the early part of the present year but forward demand in this area is intermittent and problems of continuous economic loading of the facility present themselves. Though the results of the Division in 1971 were an improvement on the previous year, they were unsatisfactory, and the Company's management continues to study means and take action to procure improvement in this historically not very satisfactory operation and to eliminate activities which are not responsive to treatment.

Canadian Car (Pacific) Division, Vancouver, B.C., had a sales volume comparable with that of the previous year, despite the depression in the woodlands industry over part of the period. Its earnings, though good, were lower because of competitive factors and because money was spent during the year on developing sales outlets outside Canada, action which should show future benefits.

Canadian Steel Foundries Division, Montreal, Que., improved its results considerably though they cannot yet be regarded as satisfactory. The program which has procured this improvement is continuing.

Divisions Within Hawker Industries (99% owned)

Canadian Bridge Division, Windsor, Ont., concentrated on the products most likely to produce good results and usefully improved its performance during the year.

Trenton Works Division, Trenton, N.S., showed a much reduced profitability in 1971, the result being strongly influenced by the three-months plant closure due to strike. It has entered 1972 with a reasonable order book and should improve its position in the present year.

Halifax Shipyards Division, Halifax, N.S., had a high level of activity particularly in the production of offshore drilling rigs. This unit took serious losses in previous years in entering the drilling rig market but is now in a position to take part in meeting the high demand for this type of vessel. It is at present working on a unit for delivery during the present year and has accepted a further order for delivery in 1973. The yard has, however, run into unforeseen additional work and consequent cost difficulties on a refit and conversion contract for two Canadian naval ships. In the Directors' opinion, a substantial part of these costs should be recoverable and a claim is being lodged. Meanwhile a conservative view has been taken of the position for purposes of assessing the profitability of the unit in 1971.

Dosco Overseas Engineering Ltd., England, had a good year and has an encouraging outlook.

Other Partly-Owned Companies

The results of ***Orenda Limited*** (60% owned), Mississauga, Ont., reflected the sharply diminished aero-engine market and were very unsatisfactory but the reduction of capacity program now in hand should improve them for the future.

Sales and earnings of ***Canadian General Transit Company, Limited*** (55% owned), Montreal, Que., were comparable with 1970, though demand from lessees for new tank cars was substantially less than in 1970.

Canadian Steel Wheel Limited (50% owned), Montreal, Que., had a satisfactory year with sales at a record level. However, the market showed some signs of declining towards the year end; it is expected that it will rise again in the second half of 1972.

Outlook

In aggregate, order books are higher than a year ago. If the present high value of the Canadian dollar continues, export trading and profit margins may be curtailed. Nevertheless, a better total volume of business and improved results seem probable for 1972.

Submitted on behalf of the Board

A.A. HALL
R.S. FAULKNER

Toronto, Ontario,
March 30, 1972.

Comments on Operations

HAWKER SIDDELEY CANADA LTD.

Canadian Car Division

Continuing soft market conditions in North America again influenced sales and curtailed production of the Division's woodlands equipment for a second successive year. However, following removal of the U.S. surtax on imports which had further aggravated the situation, some signs of improvement in that country's market appeared.

During the year a wholly-owned subsidiary, Canadian Car Pte. Limited, was established in Singapore to distribute woodlands equipment and parts in the Far East. This area of the world is believed to have an excellent market potential.

The warehouse and offices of Can-Car, Inc., a wholly-owned subsidiary which performs a similar function in the United States, have been moved to a new location in Atlanta, Georgia. This unit shares the warehouse space with Chip-N-Saw, Inc., a newly established subsidiary of Canadian Car (Pacific) Division.

The Division has erected additional warehouse space at its trailer sales branch at Rexdale, Ontario. On completion early in 1972, spare parts services previously provided from depots at Thunder Bay, Ontario and Montreal, Quebec, will be consolidated at the new location. Production and sales of trailers reached a record high level in 1971.

Delivery of 76 subway cars to the Toronto Transit Commission was completed in the third quarter of the year. At year end the Division's passenger rail car facilities were engaged in the production of 46 rapid transit cars for the Port Authority Trans-Hudson of New York. Delivery of these cars, which will operate between New Jersey and lower Manhattan, is scheduled to commence in April 1972.

Canadian Car (Pacific) Division

Despite the economic factors which affected market opportunities for its sawmill equipment, particularly in the United States, the Division recorded another satisfactory year of sales.

Development of a Vee-head Chip-N-Saw machine was successfully concluded with PAIT (a Canadian Government program for the Advancement of Industrial Technology) support and 11 units were sold in the second half of the year.

PAIT assistance was also provided in the development of a special machine for chipping the small logs used in stacks as roof supports in the deep mines of South Africa. The prototype model proved successful and was sold.

During the year, rights were acquired to manufacture and sell a patented sewage treatment process which is believed to have considerable potential.

The first 'turnkey' project carried out by the Division was completed. It involved building and equipping a complete sawmill and it is considered that the experience gained enables similar jobs to be undertaken anywhere in the world.

A sales company, Chip-N-Saw, Inc., was established in the United States with branches in Georgia and Oregon, to effect sales of equipment made by the Division and provide service support for machines operated by U.S. customers.

Canadian Steel Foundries Division

Total tonnage of castings poured at the foundry fell slightly below the 1970 level. Industrial casting business was the highest for many years but the production of castings for railway use was down mainly as a result of decreased demand brought about by the strike at Trenton Works Division.

Export sales, mainly in the form of castings for nuclear power applications, showed considerable improvement.

Trials at a steel rolling mill with rolls produced by the Division using a new method and material combination have been very successful. Further tests are being conducted by other Canadian steel mills. It is anticipated that the new production technique will enable the Division to secure a larger share of the mill roll market in the future.

Orders booked in 1971 include a heavy tonnage of ore crusher castings, and turbine castings for use at Ontario Hydro's Bruce generating station.

Further orders are anticipated in 1972 for large complex nuclear reactor castings and the demand for castings used in natural gas pipeline compressors is expected to show a sharp increase.

HAWKER INDUSTRIES LIMITED (Approx. 99% owned)

Canadian Bridge Division

A strike by steelworkers at the Division's Windsor, Ontario, plant which started in mid-December 1970 continued until the end of March 1971. This factor, coupled with a continued decline in the demand for electric power transmission structures, resulted in tower production tonnage being almost 50% lower than in 1970.

A significant export order of hydro towers for West Africa was completed and shipped during the year and fabrication of a new type of hydro pole commenced. The poles, designed to replace conventional transmission towers in urban areas where aesthetic values are important, successfully passed structural integrity tests which started toward the end of the year.

A second order for the new poles is on hand.

After very detailed evaluations of its design and manufacturing capabilities, the Division was accepted as an approved bidder by four major U.S. utility companies.

In 1971, the market for electric power structures is believed to have reached the low point of a long purchasing cycle. A minor improvement is expected in 1972.

Trenton Works Division

The Division's total sales volume decreased by about 45% from the 1970 level. The reduction was attributable mainly to the loss of business resulting from a 13-week strike by plant employees between June and early September 1971. In addition, the prolonged work disruption also prevented the Division from taking full advantage of an improvement in market conditions for railway rolling stock in the second half of the year.

Total production of freight and tank cars reached only 1088 units compared with 2032 in the previous year. Completed orders included 200 container flat cars for CP Rail, 235 similar cars for Canadian National Railways, 300 bulkhead flat cars for Pacific Great Eastern Railway and 21 tank cars for export to Mexico.

Production of railway axles was also lower than in 1970 but forgings were at about the same level. During the year, the plant fabricated the large caissons and tubular structure members for an offshore drilling vessel under construction by Halifax Shipyards Division. New processes were introduced for rolling and welding the heavy steel plate from which they were made.

A major plant reorganization program started in the latter part of 1969 had entered the final phase at year end.

Freight car orders carried forward into 1972 include 150 bi-level flat cars for carrying automobiles, the first of their type to be built at Trenton Works, and 100 box cars for export to Zambia.

Halifax Shipyards Division

A high level of activity was maintained at the Shipyards throughout the year. Work started on the construction of a third semi-submersible offshore drilling vessel which is scheduled for completion towards the end of 1972. Progress on this unit was affected by the strike at Trenton Works which delayed delivery of caissons and large tube-shaped structural members being fabricated there.

In October, a contract was received to build a further unit of the same general type but of radically different design. This vessel is for export and is ultimately destined for exploration work in the North Sea.

Assembly of a rail car ferry on Lake Titicaca in the Andes Mountains was completed during the year and the vessel placed in service by its owners. Component parts of the ship were built in Canada, transported by sea to a Peruvian port and moved up to the lake by rail.

Work also started on the construction of two stern trawlers. Both vessels are due to be completed in the Fall of 1972.

A variety of ship repair work was undertaken including continuation of the conversion and refit started in 1970 of two destroyers, HMCS Restigouche and HMCS Kootenay. The latter vessel left the Shipyard at the beginning of 1972.

The standards of work required on the drilling vessels are extremely high, particularly with regard to the quality of welding which is used extensively in their construction. To this end, intensive efforts were made throughout the year to improve welding techniques and upgrade welders through training programs.

Activity at the Dartmouth yard, which specializes in repair work on smaller vessels, was higher than for many years.

Work volume is expected to remain at a good level in 1972. World-wide demand for offshore exploration units appears likely to be maintained for several years and the Shipyards is hopeful of obtaining a continuing share of this business.

Dosco Overseas Engineering Limited

Sales of mining equipment manufactured by this subsidiary based in the United Kingdom showed a moderate increase over the previous year.

Production of the Roadheader Mk 2A machine, which was introduced in 1970, increased appreciably but total machine production was slightly below the previous year's figure. In export markets, sales of complete machines were considerably greater.

At the end of 1970, this company acquired

Hollybank Engineering Company Limited which manufactures mine arches and roof supports used by the coal mining industry. Sales of both product lines showed a marked improvement over the levels achieved in the year prior to acquisition. During 1971, production of supports commenced in a factory specially built for the purpose adjacent to the Dosco Overseas Engineering plant.

Interest in Collieries

Settlement of compensation has not yet been reached for the expropriation in 1968 of the collieries in which Hawker Industries Limited has an interest and the expropriated collieries of Dominion Coal Company, Limited in which it has a shareholding. An amount of compensation has been offered in court proceedings but negotiations are continuing to obtain a better basis of settlement.

ORENDA LIMITED (60% owned)

Many factors contributed to the reduction in both domestic and export sales experienced by the company in 1971.

Domestic sales were limited to a very low volume of jet aircraft engine components for the Canadian Government and a small number of industrial gas turbines.

In agreement with the Pratt & Whitney Division of United Aircraft Corporation, East Hartford, Connecticut, (40% shareholder) a substantial amount of jet engine component manufacture which was no longer suited to Orenda's facilities, was discontinued.

Future work in this category will be limited to that which can be carried out by Orenda under mutually advantageous circumstances.

Production of J.85 jet engines ceased with completion of the few remaining engines for the Royal Netherlands Air Force.

The expected loss of sub-contract work being performed for Rolls-Royce Limited at the time of its business failure early in 1971 was relieved, in part, by the later decision to continue with the Rolls-Royce RB. 211 engine program. However, requirements for the same type of work under the new arrangement are substantially below the original level.

For the first time in several years a major part of the company's industrial gas turbine production was for customers outside the continent. Orders were received for four gas turbine-powered compressor sets from the United Kingdom Gas Council. Two sets were of a mobile type and were delivered to the customer ahead of schedule. Some of the compressor castings for these units were poured by Canadian Steel Foundries Division and the complete sets were installed in trailers manufactured by Canadian Car Division. The remaining units are scheduled for delivery in 1972.

A contract was also received for the supply of three pumping units for use on a crude oil storage platform in the Persian Gulf. Certain components of these gas turbines will be specially built to withstand corrosion resulting from the salt laden atmosphere in which they will operate.

Both orders are expected to be of assistance in generating further business in overseas markets where the gas and oil industries are experiencing rapid growth.

CANADIAN GENERAL TRANSIT COMPANY, LIMITED (55% owned)

Revenue and earnings from the company's railway tank car rental and leasing operations were comparable with 1970, however demand from lessees for new tank cars was considerably less than in 1970.

Although large scale retirement of older equipment resulted in the total number of cars in operation being reduced the addition of new, larger cars slightly increased the overall carrying capacity of the fleet.

CANADIAN STEEL WHEEL LIMITED (50% owned)

The Company, which is jointly owned with British Steel Corporation, recorded another satisfactory year of operations.

Sales exceeded the previous record level achieved in 1970 although the demand for railway wheels declined towards the end of the year. The slow market is expected to continue into the first part of 1972 after which improved market conditions are anticipated.

Consolidated Statement of Income FOR THE YEAR ENDED DECEMBER 31, 1971

	1971	1970
Consolidated net sales (Note 2)	$158,237,510	$182,483,659
Income from operations before the items shown below	$ 15,150,833	$ 16,767,220
Income from investments	680,312	706,479
	15,831,145	17,473,699
Deduct:		
Interest on bank advances	1,098,882	1,368,694
Interest and amortization of costs on long term debt	2,886,247	2,745,067
Provision for depreciation	7,469,257	6,847,565
	11,454,386	10,961,326
Income from operations before income taxes	4,376,759	6,512,373
Provision for income taxes	1,931,000	3,748,000
	2,445,759	2,764,373
Interest of minority shareholders in income of subsidiaries	600,778	958,842
	1,844,981	1,805,531
Reduction of (provision for) loss on contracts to supply parts for Rolls-Royce RB211 engine, less income taxes of $185,095 in 1971 ($293,700 in 1970) and minority interest of $64,584 in 1971 ($102,520 in 1970)	96,876	(153,780)
Income before extraordinary items	1,941,857	1,651,751
Income tax provision not required by reason of losses carried forward from prior years after minority interest of $301 in 1971 ($1,213 in 1970)	311,699	683,787
Exchange loss arising from the freeing of the Canadian dollar, less income taxes of $204,000 and minority interest of $28,011	—	(500,433)
Net income for the year	$ 2,253,556	$ 1,835,105
Earnings per share after preferred dividends:		
Before extraordinary items	14¢	10¢
After extraordinary items	18¢	13¢

Consolidated Statement of Retained Earnings FOR THE YEAR ENDED DECEMBER 31, 1971

	1971	1970
Retained earnings, beginning of year:		
As previously reported	$ 5,898,511	$ 3,969,560
Prior years' adjustments (Note 12)	(303,170)	(303,170)
As restated	5,595,341	3,666,390
Equity in undistributed net earnings of associated company at beginning of the year	—	23,485
	5,595,341	3,689,875
Net income for the year	2,253,556	1,835,105
	7,848,897	5,524,980
Add (deduct):		
Provision for special costs and losses in a subsidiary no longer required, after minority interest of $5,256 in 1971 ($3,842 in 1970) (Note 9)	1,894,744	1,364,681
Goodwill written off on acquisition of a subsidiary on December 30, 1970, after minority interest of $811	—	(288,052)
	1,894,744	1,076,629
	9,743,641	6,601,609
Dividends on preferred shares (Note 10)	2,012,509	1,006,268
Retained earnings at end of the year	$ 7,731,132	$ 5,595,341

Consolidated Balance Sheet DECEMBER 31,1971

ASSETS	1971	1970
Current Assets:		
Cash	$ 2,694,206	$ 800,715
Short term investments, at cost (approximately market value)	3,578,612	917,427
Accounts receivable	36,778,964	36,302,172
Inventories at lower of cost and estimated realizable value, less progress payments	41,822,383	30,961,643
Prepaid expenses	1,053,503	878,728
	85,927,668	69,860,685
Investments and Other Assets:		
Coal mining interests (Note 3)	1,872,718	1,872,718
Investment in associated company (Note 4)	4,382,541	4,359,041
Notes due from Sidbec (Note 5)	5,000,000	5,000,000
Debentures of Dominion Steel and Coal Corporation, Limited, at cost	3,480,575	3,523,513
Mortgage and other investments	367,003	504,763
	15,102,837	15,260,035
Fixed Assets, at cost:		
Land, buildings, machinery and equipment	201,606,292	197,779,668
Less: Accumulated depreciation	97,054,782	91,916,169
	104,551,510	105,863,499
Unamortized Costs of Long Term Debt	258,559	234,357
	$205,840,574	$191,218,576

LIABILITIES	1971	1970
Current Liabilities:		
Bank advances (Note 6)	$ 15,172,312	$ 9,378,868
Accounts payable and accrued liabilities	28,685,513	21,307,061
Income and other taxes payable	3,852,277	3,079,035
Long term debt due within one year (Note 7)	2,492,936	2,307,702
Due to affiliated companies	3,188,594	2,843,890
	53,391,632	38,916,556
Long Term Debt (Note 7)	41,312,344	40,655,048
Provisions:		
Unfunded pensions (Note 8)	7,259,058	7,691,913
Special costs and losses (Note 9)	—	2,625,000
	7,259,058	10,316,913
Deferred Income Taxes	9,133,244	8,908,102
Interest of Minority Shareholders in Subsidiaries	13,901,477	13,714,929
Shareholders' Equity:		
Preferred and common shares (Note 10)	68,279,748	68,279,748
Reserve for contingencies	4,831,939	4,831,939
Retained earnings	7,731,132	5,595,341
	80,842,819	78,707,028
	$205,840,574	$191,218,576

Approved on behalf of the Board:
A.A. Hall, Director
R.S. Faulkner, Director

Consolidated Statement of Source and Application of Working Capital

FOR THE YEAR ENDED DECEMBER 31, 1971

	1971	1970
Source:		
Net income for the year	$ 2,253,556	$ 1,835,105
Non-cash items included in determination of net income—		
Depreciation	7,469,257	6,847,565
Amortization of costs of long term debt	25,360	19,024
Deferred income taxes	225,142	1,272,420
Income of subsidiaries attributable to minority shareholders	665,663	829,524
Undistributed net earnings of associated company	(23,500)	(115,556)
Funds provided from operations	10,615,478	10,688,082
Proceeds from issue of long term debt	3,950,438	5,450,000
Fixed asset disposals	1,744,095	389,345
Shares issued by subsidiary to minority shareholders	—	180,000
Other items	180,698	75,840
	16,490,709	16,783,267
Application:		
Additions to fixed assets	7,901,363	14,360,010
Reduction in long term debt	3,342,704	2,355,429
Reduction in provision for unfunded pensions (Note 8)	432,855	446,093
Dividends paid—		
To preferred shareholders of Hawker Siddeley Canada Ltd. (Note 10)	2,012,509	1,006,268
To minority shareholders of subsidiaries	481,770	481,770
Purchase of shares in partly owned subsidiary	2,601	243,272
Reduction in working capital on purchase of subsidiary	—	564,068
Charges to provision for special costs and losses (Note 9)	725,000	369,818
	14,898,802	19,826,728
Increase (decrease) in working capital	1,591,907	(3,043,461)
Working capital at beginning of year:		
As previously reported	31,422,638	34,466,099
Prior years' adjustments (Note 12)	(478,509)	(478,509)
As restated	30,944,129	33,987,590
Working capital at end of year	$ 32,536,036	$ 30,944,129

Notes to Consolidated Financial Statements FOR THE YEAR ENDED DECEMBER 31, 1971

1. Principles of Consolidation:
The consolidated financial statements include the accounts of all subsidiary companies except Dominion Coal Company, Limited (Domco), a partly-owned subsidiary of Hawker Industries Limited (Industries). The accounts of Domco are not consolidated because that company ceased operations March 30, 1968 on the expropriation of substantially all of its assets (see Note 3).

2. Classes of Business:

	Sales 1971	Sales 1970
Equipment for the transportation industry	$ 72,782,855	$ 80,525,756
Gas turbine power equipment for the oil, gas and aircraft industry and associated services	24,564,729	40,248,900
Other general engineering and services	60,889,926	61,709,003
	$158,237,510	$182,483,659

3. Coal Mining Interests:

	1971	1970
Shares in subsidiary not consolidated, at cost	$ 331,514	$ 331,514
Comprising all the issued common shares and 26,521 preferred shares of Domco		
Coal mining inventories and properties	1,541,204	1,541,204
	$ 1,872,718	$ 1,872,718

On March 30, 1968 the Cape Breton Development Corporation expropriated substantially all of the assets of Domco and the major part of the coal mining inventories and properties. The compensation to be paid has yet to be established but it is not expected that losses will be incurred.

4. Investment in Associated Company:
The investment in Canadian Steel Wheel Limited (50% owned) is stated at cost plus the Company's equity in its undistributed earnings.

5. Notes Due from Sidbec:
These are non-interest bearing notes due January 31, 1974 received from Sidbec, a corporation owned by the Province of Quebec, on the sale by the Company in 1968 of its shareholdings in Dominion Steel and Coal Corporation, Limited (Dosco).

6. Bank Advances:
Bank advances at December 31, 1971 include bank advances to Industries of $2,187,383 (1970 – $1,736,305) secured by a general assignment of its accounts receivable and an assignment of its inventories.

7. Long Term Debt:

	1971	1970
Canadian General Transit Company, Limited (55% owned) –		
Equipment Trust Certificates 4¼% – 6¾% due 1972 – 1980	$ 2,156,000	$ 2,468,000
First Mortgage Serial and Sinking Fund Equipment Notes 5% – 9% due 1972 – 1989 (U.S. $16,475,000)	17,504,280	18,784,750
6% – 10¼% due 1972 – 1991	18,595,000	15,510,000
	38,255,280	36,762,750
Less – Due within one year included in current liabilities	2,492,936	2,307,702
	35,762,344	34,455,048
Orenda Limited (60% owned) –		
Income Debentures due December 1, 1975	13,950,000	—
8% Notes due December 1, 1975	—	15,600,000
Less – Payable to Hawker Siddeley Canada Ltd. and eliminated on consolidation	8,400,000	9,400,000
	5,550,000	6,200,000
	$ 41,312,344	$ 40,655,048

The income debentures of Orenda Limited bear interest, not exceeding available annual earnings, at a rate equal to the minimum commercial lending rate from time to time offered by a chartered bank plus 2% per annum.

For Canadian General Transit Company, Limited and Orenda Limited, the combined working capital and the combined investment in fixed assets, after deducting accumulated depreciation, amounted to $11,863,546 and $78,263,021 respectively, at December 31, 1971.

8. Pensions:
The present value of past service pension obligations is approximately $9,800,000. Settlement of these obligations will result in annual charges to the provision for unfunded pensions set aside for that purpose and in charges to operations varying between $325,000 to $500,000 annually for the next nineteen years. During 1971 $432,855 was charged to the provision for unfunded pensions and $279,425 was charged to operations in respect of past service pension obligations.

9. Provision for Special Costs and Losses:
During the year ended December 31, 1971 an amount of $725,000 was charged to the provision for special costs and losses for payments to be made to April 30, 1973 classified as accounts payable, in respect of obligations under long term commodity supply contracts assumed by Industries on the sale by the Company in 1968 of its shareholdings in Dosco. All obligations under these contracts have now been established and the balance in the provision of $1,894,744 (after minority interest of $5,256) has been transferred to retained earnings.

10. Preferred and Common Shares:

Preferred shares of the par value of $100 each issuable in series –	
Authorized – 250,000 shares	
Issued – 240,000 5¾% cumulative redeemable shares	
Outstanding – 140,000 shares	$14,000,000
Common shares without nominal or par value –	
Authorized – 10,000,000 shares	
Issued – 8,117,341 shares	54,279,748
	$68,279,748

During 1971 the regular annual dividends of $805,000 were paid on the preferred shares together with all dividends in arrears. The preferred shares are redeemable at the option of the Company at $105 per share.

Options to subscribe for unissued common shares were outstanding at December 31, 1971 for 25,000 shares at $3.35 per share expiring 1979 and for 110,750 shares at prices from $6.00 to $6.50 per share expiring 1974 to 1976. Of the foregoing, 58,000 shares are optioned to officers and directors. No options have been granted to directors who are not officers of the Company or its subsidiaries.

11. Income Taxes:
For comparative purposes, the 1970 provision for income taxes has been restated to reflect the income tax provision not required by reason of losses carried forward from prior years. This restatement has had no effect on net income reported for 1970.

As at December 31, 1971 the Company and a subsidiary had income tax benefits of approximately $2,950,000 available for reduction of future income tax provisions.

12. Prior Years' Adjustments:

Settlement of litigation arising from transactions prior to 1963	$167,089
Additional income taxes for prior years, after minority interest of $111,339	136,081
Restatement of retained earnings	$303,170

The additional income taxes were assessed to a partly-owned subsidiary company for the years 1966 to 1969. The subsidiary intends to contest these assessments.

The recording of these adjustments is also reflected in a restatement of the 1970 balances for accounts payable and accrued liabilities and income and other taxes in the total amount of $478,509 and for deferred income taxes in the amount of $64,000.

13. Remuneration of Directors and Officers:
For the year 1971 the remuneration of seven directors amounted to $25,759 (1970 – $4,541) and of eight officers and two past officers amounted to $391,771 (1970 – $376,852). Six directors received no remuneration as directors. Six officers are also directors.

Auditors' Report

To the Shareholders of Hawker Siddeley Canada Ltd.:

We have examined the consolidated balance sheet of Hawker Siddeley Canada Ltd. and consolidated subsidiaries as at December 31, 1971 and the consolidated statements of income and retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Toronto, Ontario, March 17, 1972

Divisions and Subsidiaries:

Divisions
Canadian Car Division, Thunder Bay, Ont.
Canadian Car (Pacific) Division, Vancouver, B.C.
Canadian Steel Foundries Division, Montreal, Que.

Subsidiaries
Can-Car, Inc., Atlanta, Ga., Alexandria, La., New Bern, N.C., U.S.A. (100%)*
Chip-N-Saw, Inc., Atlanta, Ga., Portland, Or., U.S.A. (100%)*

Canadian Car Pte. Limited, Singapore (100%)*

Hawker Industries Limited, Toronto, Ont. (99%)*
Canadian Bridge Division, Windsor, Ont.
Trenton Works Division, Trenton, N.S.
Halifax Shipyards Division, Halifax, N.S.
Dosco Overseas Engineering Limited, Aylesbury, England
Hollybank Engineering Company Limited, Aylesbury, England

Orenda Limited, Mississauga, Ont. (60%)*
Orenda Engines Inc., Buffalo, N.Y., U.S.A.
Orenda (International) Limited, Mississauga, Ont.

Canadian General Transit Company, Limited, Montreal, Que., Toronto, Ont., Moose Jaw, Sask., Red Deer, Alta. (55%)*

Associate Company
Canadian Steel Wheel Limited, Montreal, Que. (50%)*

**percentage control by Hawker Siddeley Canada Ltd*

Divisions and Subsidiaries Engaged Mainly in Producing:

Equipment for the transportation industry

Canadian Car Division
Can-Car, Inc.
Canadian Car Pte. Limited
Trenton Works Division
Canadian General Transit Company, Limited

Log skidders and other woodland equipment; containers; container chassis; highway trailers; railway axles; railway freight and tank cars; industrial and mine cars; railway passenger cars (subway, commuter and mainline); railway tank and hopper car leasing; liquid storage terminals; overhead and gantry cranes; forgings; storage and pressure tanks.

(Canadian Steel Wheel Limited, an associate company, (unconsolidated), produces wrought steel wheels for railway and industrial applications and steel ingots.)

Gas turbine power equipment and associated services for the oil, gas and aircraft industries

Orenda Limited and subsidiaries

Industrial gas turbines for electrical power generation, liquid and gas pumping, heating and air conditioning; aircraft gas turbines and components; computer services; components for nuclear power applications; engineering, design, laboratory testing and graphic services.

Other general engineering and services

Canadian Car (Pacific) Division
Canadian Steel Foundries Division
Chip-N-Saw, Inc.
Canadian Bridge Division
Halifax Shipyards Division
Dosco Overseas Engineering Limited
Hollybank Engineering Company Limited

Sawmill and chipping equipment; sewage and effluent treatment systems; castings; transmission towers and poles; masts; substations; naval and merchant shipbuilding and repair; offshore drilling vessel construction; mining equipment.

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Hawker Siddeley Canada LTD.

Semi-annual report for period ending June 30, 1971

To the Shareholders:

Submitted herewith are the interim unaudited consolidated statements of income and source and application of working capital for the first half of 1971 compared with the same period in 1970.

Sales

Consolidated net sales for the half year of $77,146,154 are down from $97,336,997 for the same period last year. This decline in volume occurred predominantly in the Canadian Bridge and Trenton Works Divisions of Hawker Industries Limited (99 per cent-owned) and, particularly, in Orenda Limited (60 per cent-owned) which entered the year with a small final balance outstanding on contracts for military engines and where to date aero engine parts deliveries are significantly lower as are those for industrial gas turbines. Sales elsewhere maintained levels comparable with those of the same period last year.

Income Before Extraordinary Items

Income before extraordinary items for the six months is recorded at $840,487 compared with $1,102,810 last year. After allowing for normal two quarters preferred dividend requirements this is equal to 5.4 cents per common share (1970: 8.6 cents).

Net Income

After including the extraordinary items shown in the attached consolidated statement of income, net income for the first half amounted to $1,287,487 (1970: $808,529) and after allowing $402,500 for normal two quarters preferred dividend requirements this is equivalent to 10.9 cents (1970: 5 cents) per common share based upon the 8,117,341 common shares outstanding.

Preferred Share Dividends

During the first half of 1971, preferred dividends for six (6) quarters in the amount of $1,207,511 were declared and paid which reduced to two (2) quarters the cumulative preferred dividends in arrears. At the same time in 1970 there were seven (7) quarters preferred dividends in arrears.

Comment

The operating units of the company with the exception of Orenda Limited, entered the second half of this year with satisfactory levels of order books. However, the reduced trading at Orenda Limited, the labour strike presently in its tenth week at Trenton Works, and the effects of the announcement on fiscal policy made by the President of the U.S.A. on Sunday, August 15, 1971, will all be restraining factors on anticipated earnings in the latter half of the year.

R. S. FAULKNER
President and Chief Executive Officer
Toronto, Ontario
August, 17, 1971

Consolidated statement of income

	First Half	
	1971	1970
Consolidated net sales	**$ 77,146,154**	$ 97,336,997
Income from operations before items shown below	**$ 6,574,373**	$ 8,435,521
Income from investments	**393,538**	276,162
	6,967,911	8,711,683
Deduct:		
Interest on bank advances	**481,661**	773,818
Interest and discount on long term debt	**1,554,739**	1,327,283
Provision for depreciation	**3,711,935**	3,489,584
	5,748,335	5,590,685
Income from operations before income taxes	**1,219,576**	3,120,998
Income taxes	**448,000**	1,486,971
	771,576	1,634,027
Interest of minority shareholders in (loss) income of subsidiaries	**(68,911)**	531,217
Income before extraordinary items	**840,487**	1,102,810
Income tax provisions not required by reason of losses carried forward from prior years	**447,000**	—
Provision for exchange loss, less income taxes of $71,971 and minority interests of $4,773 (Note 1)	**—**	(294,281)
Net income for the period	**$ 1,287,487**	$ 808,529
Earnings per share —		
before extraordinary item	**5.4 cents**	8.6 cents
after extraordinary item	**10.9 cents**	5.0 cents

Notes:

(1) The comparative figures for 1970 have been restated to show separately a net provision for exchange loss on net assets in foreign currencies at May 31, 1970 resulting from the freeing of the Canadian dollar. Subsequently, the value of the Canadian dollar continued to rise, contributing to the net exchange loss of $500,433 shown as an extraordinary item in the consolidated statement of income for the year ended December 31, 1970.

(2) Interim statements are subject to audit and year-end adjustments.

Consolidated statement of source and application of working capital

	First Half	
Source:	**1971**	1970
Net income for the period	$ 1,287,487	$ 808,529
Non-cash items included in the determination of net income —		
Depreciation	3,711,935	3,489,584
Amortization of discount on long term debt	10,471	9,283
Deferred income taxes	(796,244)	790,000
(Loss) income of subsidiaries attributable to minority interest	(68,911)	526,444
Equity in undistributed net earnings of associated company	(16,463)	—
Funds provided from operations	4,128,275	5,623,840
Proceeds from issue of long term debt	—	1,985,000
Fixed asset disposals	740,028	147,328
Decrease in mortgages and other investments	475,260	15,251
	5,343,563	7,771,419
Application:		
Additions to fixed assets	4,646,888	4,822,174
Reduction in long term debt	1,279,141	629,141
Reduction in provision for unfunded pensions	212,388	144,996
Dividends paid —		
To preferred shareholders of Hawker Siddeley Canada Ltd.	1,207,511	402,510
To minority shareholders of subsidiaries	227,250	227,250
Purchase of shares in partly owned subsidiary	100	1,025
Charges to provision for special costs and losses	128,555	323,555
	7,701,833	6,550,651
(Decrease) increase in working capital	(2,358,270)	1,220,768
Working capital at the beginning of the period	31,422,638	34,466,099
Working capital at end of the period	$ 29,064,368	$ 35,686,867

Note: Interim statements are subject to audit and year-end adjustments.

Hawker Siddeley Canada LTD.
7 King Street East, Toronto 1, Ontario

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